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THE ECONOMIC SITUATION IN THE PHILIPPINES

Despite the fact that some observers consider the Philippine question moribund, and others regard it as "settled by the election of 1904," there is reason for studying it with anxious care. To thoughtful readers it is hardly necessary to say that in none but the most superficial sense can the question be affected by the recent presidential election. Prior to that election, facts had already determined that the United States must necessarily retain some sort of relation to the Philippine Islands for a good while to come. No one doubted that this must be the case, and the only Philippine issue that could have been at stake in the election (apart from a declaration of intentions) was our practical policy for the present and immediate future. It is true, however, that the nature of this policy will do much to determine what shall be our ultimate action as to the disposition of the islands. This must be the case both because of the conditions that are growing, and will grow, out of our occupation, and for which we shall be responsible, and because of the reflex influence which will be exerted upon public opinion in the United States by the success or failure of the measures that we adopt.

In this working out of a colonial system, temporary or permanent, the central feature will be our plans of economic development and relationship. We went into the Philippine experiment,

in the beginning, largely in the hope of gaining in wealth; and, however that fact may hurt our national self-complacency, that has been our guiding motive throughout. Revulsions in feeling have come most frequently when statistics or the reports of trusted observers pointed to the barrenness of the economic prospect, and encouragement to prosecute our policy as previously outlined has chiefly been derived from arguments concerning insular commercial possibilities. "National altruism," the "trust for civilization," the "Americanizing of the East," are cries that do good service on the stump or in the editorial column. In sober discussion it is wise to throw off the mask and admit the character of the motives that have guided our footsteps. The fact is that we have had but one consistent ideal throughout—that of making the islands a source of gain to the United States. Whether we like the Philippine policy or not, it is of first importance, therefore, to know the economic effects of the policy already put into operation and the probable results of that which is now being pursued.

In this paper it will be sought to review the Philippine situation from a purely economic standpoint, and without reference to the political questions involved in it. It will be assumed, for the purposes of the discussion, that our present political policy is to be maintained substantially as at present, and that the administration of the islands is to continue to be conducted by Americans.

## I

Present economic conditions in the Philippines must be considered from two standpoints—that of foreign trade and that of domestic agriculture. Manufacturing is to all practical purposes non-existent, and is not likely to amount to much in the future. A few simple industries, like cigar-making, distilling, and the production of essential oils, exist, and will do so always; but the prosperity of the country must be dependent chiefly upon its capacity to furnish agricultural products for export. Conversely, its production and sale abroad of these same commodities must measure and determine its power to buy American or other goods.

This fact fully justifies the anxiety with which the exports and imports of the Philippines are watched by those in authority. They stand for a factor in national well-being entirely different in

significance from that which is represented by the exports and imports of a large, diversified, and self-sufficient country like our own. As such they are entitled to most careful analysis and illustration. In the following table are presented the official returns for this trade as given out by the Bureau of Insular Affairs at Washington:

FOREIGN TRADE OF THE PHILIPPINE ISLANDS

YEARS	IMPORTS	EXPORTS	TOTAL IMPORTS AND EXPORTS	EXCESS	
				Exports	Imports
Average annual 1880-84....	\$19,500,274	\$20,838,325	\$40,338,599	\$1,338,051	.....
Average annual 1885-89....	15,789,165	20,991,265	36,780,430	5,202,100	.....
Average annual 1890-94....	15,827,694	19,751,293	35,578,987	3,923,599	.....
1899.....	13,113,010	12,366,912	25,479,922	.....	\$ 746,098
1900.....	20,601,436	19,751,068	40,352,504	.....	850,368
1901.....	30,279,406	23,214,948	53,494,354	.....	7,064,458
1902.....	32,141,842	23,927,679	56,069,521	.....	8,214,163
1903.....	32,971,882	33,121,780	66,093,662	149,898	.....
1904.....	33,220,701	30,250,097	63,471,458	.....	2,970,064

From these figures it appears as if a remarkable increase in Philippine trade had taken place. During six years of American rule the total export and import business of the islands has grown from twenty-five millions to sixty-three millions, exports increasing from twelve to thirty millions, and imports from thirteen to thirty-three. Trade, in other words, appears to have nearly doubled in volume, even as compared with the period 1885-94.

In examining the figures, however, it deserves to be noted, first of all, that they claim to represent solely the merchandise dealings of the Philippine Islands. They expressly exclude "gold and silver and large quantities of government supplies"—a statement which would seem to imply that whatever profit arose through the existence of the trade indicated might be taken as a clear commercial gain flowing from natural business channels.

<sup>1</sup> From *Monthly Summary of Commerce of the Philippine Islands*, Bureau of Insular Affairs (Washington, June, 1903), p. 1429; and *Report of the Chief of the Bureau of Insular Affairs* (Washington, 1904), pp. 32 and 35. The amounts covered by the fifteen years 1880-94 are inclusive of coin and lottery tickets, and from statistics for the years 1883-90—the only portion of this period for which gold and silver figures are available—it is shown that there were an average annual importation valued at \$376,167 and an exportation valued at \$2,195,486. Lottery tickets will not materially affect these averages.

Is this the case?

In the first place, it is to be observed that, during the six-year period of American rule here in question, there is a large annual excess of imports over exports, which disappears only in 1903, when there is a trifling excess of exports amounting to about \$150,000. The fundamental axiom of the economists concerning international trade is usually said to be that imports must, over a period of years, equal exports, these terms being understood to include securities, gold and silver coin, and all other evidences of value. Inasmuch as these items are expressly excluded from the foregoing figures, it is necessary to make due allowance for them. In so doing, it will be well to remember that the item of investment of foreign capital need not be considered, since such investments have been non-existent or insignificant. On the other hand, amounts of wealth sent from the Philippines by resident foreigners as savings, for investment in their home countries, may be similarly neglected, since the office-holding class saves little, and foreign business men operating in the islands have latterly been unable to make much beyond expenses, and such sums as seemed necessary for investment in maintaining their business, replacing stock, making new extensions, etc. To none of the usual causes, therefore, can the excess of merchandise imports over exports be ascribed.

In seeking for the anomalous conditions which appear to enable the Philippines to consume more than they produce, light can be obtained by an analysis of the gross import figures above quoted into their elements. This analysis has been made in the following table:

IMPORTS INTO THE PHILIPPINE ISLANDS<sup>2</sup>

Articles	1899	1900	1901	1902	1903	1904
Food and animals.....	\$3,793,169	\$5,483,806	\$8,158,704	\$10,846,142	\$14,675,522	\$15,690,910
Manufactures.....	6,953,265	10,811,386	18,329,186	17,263,412	14,985,085	
Crude condition or partly so.....	202,978	675,745	900,402	1,068,839	989,450	
Voluntary use, luxuries, etc.....	1,028,672	1,805,719	2,744,025	2,710,487	2,227,855	17,529,851
Miscellaneous.....	1,134,926	1,824,780	146,999	252,962	93,970	
Total.....	\$13,113,010	\$20,601,436	\$30,279,406	\$32,141,842	\$32,971,882	\$33,220,761

<sup>2</sup> Monthly summary, *ante cit.*, p. 1430.

The most rapid growth in the imports of the Philippines is thus to be found in the item "food and animals," which has substantially quadrupled between 1899 and 1903. Manufactures have about doubled in amount, and articles of voluntary use, luxuries, etc., have considerably more than doubled. This increased importation of luxuries and articles of voluntary use has gone wholly to supply the needs of resident foreigners—chiefly Americans—who are either of the office-holding or of the military class, and who draw their incomes, in the former case, from the insular government, and, in the latter, from money sent from Washington. The demand for such goods made by the few commercial men in the islands is absolutely negligible, and it would be absurd to attribute much of the increase in the demand for articles of this class to native purchases. What is true of luxuries and similar articles is true, with slight modifications, of the figures for manufactures. Among the important items coming under the head of manufactured importations are such articles as expensive cloths, wearing apparel, shoes, hardware, and other things designed to meet foreign wants exclusively. That being the case, the growth in the purchase of manufactured imports, like the growth in the demand for luxuries, must be attributed to the effort to supply the needs of foreigners living in the islands, and only in slight measure, if at all, to a real increase in trade with the native inhabitants who furnish the only true market for imports in any large commercial sense. Much light upon the nature of the apparent growth in imports is furnished by Major-General George W. Davis, who in 1903 wrote as follows:

Mention has frequently been made of the fact that the value of the imports at the custom-house in the Philippines largely exceeded that of the exports—a state of affairs proving that, on account of the hoarding of gold, made possible by military expenditures, it is possible for these islands to import each year some millions in value more than they export. The investment of foreign capital here has been suggested as an explanation of the sources whence came the funds to purchase these excesses of imports over exports . . . but, whatever these investments may have been, their aggregate will be but a bagatelle compared with the United States expenditures for the army and navy and the donations.<sup>3</sup>

<sup>3</sup> *Annual Report to Adjutant General, 1903* (Manila, P. I.), p. 49.

Continuing, General Davis estimates expenditures for 1902-3, as referred to by him, at \$17,968,445, and adds:

If to the above amounts be added the naval expenditures here and the congressional donation, the total will probably reach \$24,000,000, and if it be granted that one-third of this sum is promptly sent out of the country . . . . by officers, soldiers, and employees,<sup>4</sup> there yet remains a sum . . . . greater in amount than the entire revenue of the islands.

General Davis, in other words, estimates that an annual foreign exportation of saved wealth, which may, of course, take the form of an indirect demand for goods, amounting perhaps to \$8,000,000, is made by our army and navy and their employees, and that some \$16,000,000 remains in the hands of these men for expenditure in the Philippines. If the latter portion of this estimate be even approximately correct, the surplus importations in 1902 (not paid for by exports), amounting to over \$8,200,000, are fully explained. Indeed, when it is remembered that our army in the Philippines varied in strength from some 65,000 men to some 15,000 (Americans), or a little less, during the five-year period in question,<sup>5</sup> and that the expenditures of this body of men, provided as they were with rations, were chiefly for manufactured articles of direct consumption, the growth in the importation of manufactures stands fully explained even without reference to the purchases of similar goods made by civil employees and foreign residents.<sup>6</sup>

As a matter of fact, the importations of manufactures have materially fallen off as the strength of the army in the Philippines declined, for the gross manufactured imports of 1903 were only \$14,985,085, as against \$18,329,186 in 1901, and \$17,263,412 in 1902. It should be remembered, moreover, that a new element of untrustworthiness in the custom-house statistics has recently been introduced by the resolution of the commission (in 1903) to pay tariff duties on government supplies (hitherto imported free), and

<sup>4</sup> Certainly a high estimate, for reasons already stated.

<sup>5</sup> This takes no account of the large body of native scouts paid by the government.

<sup>6</sup> Payments to the army have, of course, declined as the number of men in the Philippine service has fallen off. Such payments are now probably about three-fourths what they were when General Davis made the statements above quoted.

thus to swell the trade figures by drawing from one pocket what it puts into another.

The only rational conclusion that can properly be deduced from a consideration of the import statistics is simply that the "market" afforded by the Philippines for foreign products has thus far been absolutely fictitious, since it has been artificially created through the maintenance of a large body of paid public servants in the islands, whose support was in very large measure drawn in cash from taxation levied in the United States and indirectly used by them in the purchase of imported commodities.

What is true of the growth of imports of manufactures is true in an even more depressing way of the imports of food and animals. It has already been shown that this class of imports, quadrupling as it did within five years, furnished the most striking example of increase of imported products afforded by the custom-house statistics of the islands. If the increase in this class of products were natural, it would probably indicate (in view of the marked decline in the number of Americans resident in the Philippines and in the strength of the army) that a genuine increase in business was in progress. The increase, however, is not genuine, but is due primarily to heavy importations of rice and other food-stuffs designed for the use of the native sufferers from short rice crops, war, cholera, death of farm animals, etc. Detailed statistics for 1904 show that of rice alone the imports in that year were \$11,548,814, as against \$10,061,323 for the preceding year—a fact which alone accounts for more than all of the supposed increase in food importations. A similar, though less marked, comparison may be made between the years 1902 and 1901; and when it is considered that much of this rice was paid for by the government, and that all of the increase in imports of this class represents, not greater, but less, purchasing power on the part of the natives, the hollowness of any pretense of prosperity based on the evidence furnished by large imports becomes evident.

Many persons who have lately written or spoken on Philippine affairs have been inclined to neglect the question of insular imports. They have devoted much attention to exports, however, regarding the islands as the source of cheap supplies of various

tropical products much needed in the United States. Without attempting to go fully into this question of exports, a few words regarding the general export situation will be needful. The total exports for the Philippines during the five-year period 1899-1903 may be stated as follows:

PHILIPPINE EXPORTS BY COUNTRIES<sup>7</sup>

Exported to	1899	1900	1901	1902	1903	1904
United States.....	\$3,540,894	\$3,522,160	\$2,572,021	\$7,601,743	\$12,863,059	\$11,102,775
United Kingdom.....	2,686,354	6,225,209	10,704,741	8,282,979	8,802,016	10,123,276
France.....	533,632	1,392,439	1,934,256	955,828	3,678,805	2,127,365
Spain.....	1,076,800	1,226,475	1,055,255	868,528	755,234	965,511
Hongkong.....	*	2,686,168	2,097,276	3,183,482	2,122,304	2,102,785
Japan.....	265,573	1,032,462	1,443,880	925,767	1,502,366	1,204,514
Other countries.....	4,263,659	3,666,155	2,207,519	2,019,352	2,397,996	2,624,401
Total.....	\$12,366,912	\$19,751,068	\$23,214,948	\$23,927,679	\$33,121,780	\$30,250,627

\* Hongkong not reported separately prior to January, 1900.

PHILIPPINE EXPORTS BY ARTICLES<sup>8</sup>

Articles	1902	1903	1904
Hemp.....	\$15,841,316	\$21,701,575	\$21,794,960
Sugar.....	2,701,432	3,955,568	2,668,507
Tobacco.....	2,501,367	1,882,018	2,013,287
Copra.....	1,001,656	4,473,029	2,527,019
All other.....	1,821,908	1,107,709	1,246,854
Total.....	\$23,927,679	\$33,119,899	\$30,250,627

This statement, on its face, indicates a very considerable growth in the volume of foreign shipments, although, if a comparison with the figures for the earlier period of Spanish rule be made, the growth will not seem so striking. Comparison must, of course, be based on normal trade, and figures for a period of years during which active military operations were in progress, while the whole country was suffering from pestilence in various forms, do not furnish very valuable data for judging of the normal rate of commercial growth. The most marked increase during the whole period is found during the fiscal year 1903, when an expan-

<sup>7</sup> Monthly Summary *ante cit.*, p. 1435 and Report of the Bureau of Insular Affairs, Washington, 1904, p. 32.

<sup>8</sup> Report of the Bureau of Insular Affairs, *ante cit.*

sion of gross exports from \$23,927,679 to \$33,121,780 occurred — a growth of nearly \$10,000,000. An analysis of these figures shows that about \$6,000,000 of this increase was due to an expansion in shipments of hemp and about \$3,470,000 to a similar expansion in copra, and that, apart from these two items, hardly any important increase occurred, while in certain commodities, such as tobacco, a serious decline was noted. Moreover, of the \$10,000,000 of growth in export trade almost exactly \$6,000,000 was a growth in trade with the United States. This growth was thus substantially equal to the increase in hemp exports, and might indicate that the enlarged trade with the United States consisted solely of hemp. Such was substantially the case, but the increase must be regarded as wholly artificial. The action of Congress in exempting hemp exports from the Philippines to the United States from duty, while retaining the export duty on hemp shipped to other countries, has had considerable influence in directing the hemp trade toward the United States, though it is hard to see how this benefits American consumers. The hemp passes into the hands of the cordage manufacturers, who re-export it, or manufacture it into rope and twine for domestic use. Inasmuch as hemp going to foreign countries has had to pay (1) the export tax in the Philippines and (2) the American tariff on manufactured articles, before it can enter the United States in a manufactured condition, it is clear that competition from abroad must be largely lacking, while within the United States the twine and cordage producers have no competition to meet.<sup>9</sup> Any advantage arising from enlarged hemp exports from the Philippines must therefore accrue, not to the American public, but to a very small group of manufacturers, who

<sup>9</sup> So far as the United States is concerned, the larger importation of hemp is fictitious for another reason. Hemp imports hitherto have usually come from London, to which they have been shipped as a distributing point. The manipulation of the export tax has sent them sometimes straight to the United States, but sometimes via London in bond for New York. In the latter case, the only difference between the old situation and the new is that the hemp imports to the United States formerly credited to Great Britain are now credited to the Philippines while the insular government loses, and the cordage producers save, the amount of the export tax.

are under no compulsion whatever to lower their prices or to improve the quality of their goods.

## II

Granting that the export situation is discouraging, and that foreign trade thus far holds out small evidence of improvement, it might be expected that a change will take place in the near future, if agriculture is in flourishing condition, or at all events gives promise of improvement. American authorities in the Philippines have constantly represented that any check to agriculture that may have made itself felt thus far has been temporary, and would lose its force so soon as "order" was restored. The implication that "order" is likely to be restored at any time in the near future might well be questioned, but, conceding this point entirely, it should be understood that a restoration of "order" is far from certain to produce the desired results in a commercial way. If it were true that Philippine agriculturists neither had nor required any fixed capital, the expectation referred to might be measurably sound. This, of course, is not the case. While the capital they employed was small, it was all the more important to them as a reliance. Today they are, largely, stripped of it, and in a number of ways return to the old conditions has been made difficult. A chief item of wealth under the earlier régime was the herds of carabao which furnished animal power in agriculture, as well as meat and valuable hides. Beginning with the more severe operations of the war, a serious destruction of carabaos occurred, partly to keep the animals out of the hands of the insurgents, though sometimes to furnish food for our troops. When the war had officially terminated, this destruction was continued, partly by roving bands of *insurrectos* or ladrones, partly by our soldiers for the same purposes as before. The worst calamity was yet to come. An outbreak of rinderpest carried off in 1903 a large percentage of the animals which remained. The combined losses of carabaos from the causes already mentioned aggregated from 70 to 90 per cent. of the total animals available prior to the war. In many individual cases these losses ran as high as 95-99 per cent. An effort has been made by the commission to remedy the conditions

thus produced, by importing carabaos from China, but the undertaking has proved to be an utter failure. Not only was it necessary to pay very high prices for the animals, but the Chinese government soon forbade the exportation of more than a limited number, while it appeared to be impossible for more than a limited number of those actually obtained to survive more than a few weeks after landing in the Philippines. The imported carabaos not only succumbed to rinderpest, but suffered from various other animal diseases. Most important of all, the ruined peasantry was in most cases quite unable to raise the money with which to buy for cash at the price asked (140 pesos per head). Late in the autumn of 1904 the experiment was abandoned.

The sacrifice of animal labor power has been more than paralleled in the loss of human lives. How many Filipinos actually died during the war as a result—direct or indirect—of military operations no one can tell, but the number in Luzon (where, of course, the sacrifice was heaviest) was estimated just after the war by one of our generals, who saw active service, at one-sixth of the population. The cholera epidemic of 1903 carried off some 175,000 persons more, of which a due proportion were actual workers. Mortality due to lack of proper food, and to the defective vitality resulting therefrom, has been heavy, and the reduction of population from all these causes combined has necessitated a complete readjustment of the labor supply to demand.

While the loss of human and animal labor has thus been enormous, there has also been serious damage to capital. The primitive farm machinery thus far used would not in itself be a great loss, but the injury inflicted during the war upon drainage systems and upon the roads of the islands was tremendous. No reliable estimate of the sacrifice thus incurred can be arrived at in the absence of specific data. It is certain, however, that land transportation is more difficult, slower, and more hazardous than ever before. The obstacles which are apparent to one who travels over the chief highways become multiplied many times over the instant any attempt is made to follow a side path. Many branch roads in the islands are impassable except on foot or possibly on horseback. Many of the bridges which were blown up or otherwise destroyed

in the course of military operations have never been replaced, and deep, often dangerous, fords take their places.

There are many evidences of the effects of war still visible to the provincial traveler. The "disproportionate number of women and children" as compared with the number of men, noted by at least one unbiased Philippine observer, is still a remarkable fact, and indicates the severity of the war in sweeping off men of mature years—by what means it would be beside the point here to discuss. The population is badly housed—not from a western, but from an oriental, standpoint; and, in many cases, this seems to be due to the entire absence of men vigorous enough to perform the work of rebuilding or rethatching the houses. Unthrifty fields, ill-cultivated or depending chiefly on the bounty of nature for their increase, are the rule in many provinces where the death of the carabaos has entirely removed the supply of draft animals. There is, indeed, little to wonder at in the information that the rice-fields do not yield sufficient grain even for the bare support of the population. Of other products the same statement will hold true, and the loud complaint that the natives will not work and are rapidly deteriorating in the quality of their produce is often explainable by the fact that the mature workers have been swept away, and their places taken by boys and women who in better times would have had to play a 'prentice part in the work of production.

In the smaller towns by the wayside some of the marked evidences of the country's depression are visible. Nearly all the houses and other buildings of every description are in disrepair. Where an effort has been made to obliterate damage done, an incongruous result is usually obtained, since the people are not able to afford the use of stone as repair material, and have often had to fill in with nipa-thatch where stone was the material of the structure. Worthless iron or thatch roofs take the place of tiles torn off by soldiers or destroyed by shot. In the interior of the houses the disorder is even more apparent, for here one comes close to damaged walls, doors, and windows, and appreciates more fully the meanness of the repair materials which are all that the poverty of the population will suffer them to use. In numerous

instances the interior of a *convento* or church, often the only buildings of any value or permanence in a town, has done service as stabling-room for cavalry horses, and has been the object of wanton violence on the part of the soldiery. Whatever of worth there was in the way of altar accessories, furnishings, or even floorings, where the latter consisted of fine woods, appears to have been removed and disposed of. The accumulated hoards of finery, or money, possessed by some families, were, in almost every case, discovered and removed by the soldiery, who became very astute in detecting the traditional hiding-places of such hoards, as well as very cruel in extorting information as to such places, whenever they found themselves unable to locate the deposits.

In brief, the impressions derived from a journey through the Philippine Islands are those which are produced from an inspection of a devastated, demoralized country, just emerged from war, and entirely without the usual reserve resources of capital, either native or foreign, upon which to draw.

The existence of the conditions just set forth does not depend upon the necessarily superficial impressions of traveling observers. They are amply borne out by the collateral evidence of the officials of the United States government. In 1903, when distress was very acute as a result of war, cholera, locusts, rinderpest, and other evils, the Philippine Commission contemplated the establishment of a government agricultural bank to furnish capital for the relief of farmers. It then sent out a circular through the insular treasurer, addressed to all provincial treasurers throughout the islands. In this circular the treasurers were asked to state their views as to the organization of the proposed bank, and they were thus naturally led to give some description of agricultural conditions in their respective provinces. The result was a widespread and practically general demand for the bank, as a source of capital to be loaned on real-estate security, and a description of agricultural conditions as the worst possible. Some spoke of thousands of hectares of rich lands as lying idle; others, of rates of interest ranging as high as 100 per cent. for six months owing to scarcity of ready capital; of fields untilled on account of the total absence of farm animals; of "conditions of distress hard to

describe;" of agriculture as "decadent;" and of systems of quasi-slavery arising from the total inability of families to pay their debts and support themselves. These reports afford a striking picture of economic demoralization that can be realized with difficulty by those who have not witnessed it at first hand.<sup>10</sup>

The reports of the provincial treasurers were written about the middle of 1903, some eighteen months or more ago. Within the past year it has been usual among our officials to claim that the economic crisis is over, and that the islands have entered upon an era of peace and prosperity. Unfortunately, these statements have little foundation. A glance at the tables already furnished will show that the export situation was less favorable by far for the fiscal year ending June 30, 1904, than for the preceding fiscal year. A trip through some provinces of the Philippines in the late summer of 1904 convinced me that improvement had been slight, if indeed it existed at all. This, indeed, is the uniform testimony of the inhabitants. In fact, ordinary common-sense reflection would show that no material improvement could have accrued. The death of, say, 75 per cent. of all farm animals is a loss that could not be repaired for a period of years by natural increase, and the importation of draft animals, as already seen, has proved a failure. So also of other forms of capital which in a poor country require long periods for their restoration. So likewise of the human labor supply. If it were true that the existing situation represented the result of past evils exclusively, and if there were factors tending to stimulate a belief in continuous improvement in the immediate future, the prospect would be less discouraging. Unfortunately, this is not the case. The Philippines have had the misfortune to pass from a rigorous war into a period of a complete economic change (from the legislative standpoint), whose results have been hardly less sweeping than those of the conflict. A number of influences profoundly affecting economic conditions have been set at work, or have remained as the permanent result of the war, and must inevitably preclude any immediate improvement in the out-

<sup>10</sup> These reports have never been published, but were lent me by the Treasury for examination on request of Hon. H. C. Ide, vice-governor of the Philippines, for whose kindness in the matter I take pleasure in recording my obligation.

look. These influences require enumeration and analysis to be thoroughly appreciated.

One great difficulty under which the Philippine agriculturist suffers is the almost entire absence of loanable capital and the impossibility of getting any advances upon agricultural lands save at exorbitant rates of interest. These rates are never below 10 per cent., the common rate being from 15 to 20 per cent. on thoroughly good security. In places, the rate rises to 40 per cent., and occasionally to 75 or 100 per cent. If a landowner once gets into debt, owing to inability to pay his taxes out of current incomes, or from any other cause, and is obliged to borrow, he sinks into a state of servitude to local money-lenders (where these exist) and finds it difficult to get clear without the loss of his total property. If he is unable to borrow, owing to the absence of capital, the disaster which might be postponed comes upon him at once, and he loses his land forthwith.

To remedy this state of affairs, it has often been proposed that mortgage banks should be established in the various provinces. This is a universal popular demand in some regions. Some months ago a scheme of the sort was earnestly favored by General Aguinaldo in an address to the Philippine Commission, and his views doubtless represent a considerable section of native opinion upon the subject. Mr. C. A. Conant, who made a report to the War Department upon currency and banking conditions in the Philippines, recommended the enactment of legislation suitable to regulate the business of private companies desirous of engaging in such banking, and the Philippine Commission itself has mentioned the matter in reports to Congress, and has, as well, made the local investigation already described. But no one has taken any active interest in the subject, native desires notwithstanding. In short, the question has not made one step toward solution, and the need for capital has grown more urgent as times have become harder, necessitating investments in machinery, etc., which could be obtained only by pledging the soil itself as security.

The commission unquestionably has full authority to deal with the problem of mortgage-banking, and it is merely a matter of neglect or indifference that it has not already done so—to the

extent at least of passing legislation for encouraging and regulating private enterprises of the sort. The great issue involved in the question is whether an enterprise of this character should be undertaken by the government or should be left to individuals. The natives, influenced by a fear of money-lenders arising from unfortunate experience in the past, think the question should be handled by the government, while the latter evidently has no intention of becoming involved in financial schemes of such difficulty and extent. There is, at all events, nothing to prevent the enactment of suitable legislation designed to encourage and regulate private banking enterprises, and it is surprising that no steps toward that end have yet been taken.

About the only measure designed to put agriculturists into better position for recovering their lost ground has been taken in the establishment of the court of land registration. One thing that has always militated against the securing of capital for agricultural loans in the Philippines has been the absence of good real-estate titles. The Spanish left these titles in the worst of condition, and it has remained for the American administration to adopt some measures toward ending the interminable litigation and costly confusion as to titles that everywhere exists. This, as will be evident, is the first step also toward putting landowners into position to obtain loans on their real estate. Nothing but good can come from a definite establishment of titles, and, if wisely used as a basis for credit, the established titles must serve a useful purpose in the development of the country. But, beneficent as it may prove in the long run, the work of the court of land registration is, and must be for some time to come, exceedingly hard for the natives to bear. As land is usually held in very small parcels, where it is actually owned at all, the fees charged by the court of land registration prove very burdensome, for the scale of charges fixed by the commission seems to bear much more heavily upon the small owner than upon the *haciendero*. Parcels of land worth \$100 U. S. or less must pay \$10, or at least 10 per cent. of their gross value, for registration—a tax which seems almost prohibitive to the average small owner. Yet this registration is likely to prove an absolute necessity, since, as already noted,

few such owners have heretofore had any paper titles, while throughout all of the best provinces there are now waiting many Americans eager to occupy any land that may be of value, so soon as the provisions of the Public Land Act fully take effect. These men will not scruple to possess themselves of specially desirable tracts whenever it appears that the nominal owner's title is uncertain or has not secured recognition from the American courts. Thus, then, the process of registering the land implies the incurring of great present hardship for the sake of future possible gain. This hardship and expense, coming just at the present time, fall with double force upon the impoverished population. Many men are not sufficiently intelligent to see the wisdom of this process of perfecting title, and many others feel that it would better have been undertaken at some other time. Still others, however—and these the best-informed—approve the plan, but believe that the fees charged are far too high, and that the burden they impose on the poor man is disproportionate. This seems to be the fair and sound view of the situation.

Not so favorable a view as this can be taken of the commission's tax policy. Students of agricultural conditions in the Philippines must be struck with surprise at the unwisdom and impolicy shown by the commission in imposing land taxes under existing conditions. The idea of taxing real estate is new in the archipelago, and however just such taxes may abstractly be, they would, none the less, be unpopular under any conditions. To impose land taxes now, when the country population throughout large areas is prostrated with economic disaster, seems in the highest degree unwise. Indeed, the commission itself recognizes that such is the fact by suspending from time to time the operation of the tax in provinces where conditions are exceptionally bad. In others a process of expropriation has taken place, and the property of thousands of natives has been posted for sale because of failure to meet tax payments when due. The mere existence of this tax is even worse than the load it imposes upon agriculture, because of the irritation it produces and the difficulty of shifting it to the proper shoulders through an adjustment of prices and rents. This process, relatively easy in a country like the United States,

becomes a matter of great difficulty where rents are customary and not competitive. At present, and for a long time to come, this tax must necessarily constitute a real reduction in the income, and hence in the capitalized land values, of the farmer. It is to this that the hostility to the tax is attributable. Indeed, the baseless idea has become prevalent among large numbers of people that this form of taxation was especially designed for the purpose of forcing native owners to surrender their lands to Americans who want them.

While the land tax is very generally defended upon grounds of equity as no more than a fair contribution on the part of the agricultural part of the population, closer analysis shows its essential injustice under existing conditions. As things stand, the larger part of the tariff load must rest upon the shoulders of farmers. This follows from the fact that the exports of the islands are wholly agricultural, and that the tariff policy, in causing relative reduction of agricultural prices, has unmistakably fallen most heavily upon the agricultural population. So also the export tax on Philippine products has been a direct burden upon the farmer by causing a reduction in the prices exporters could afford to pay for native products. It is not true, therefore, as widely argued, that the land tax in the Philippines is based on the notion of equity in the distribution of taxation, since the farming class already bears its full share of the burden of maintaining the government. The imposition of the tax seems to have been merely another effort on the part of the commission to hit a head wherever it could see a chance of bringing in another peso to the treasury. No class in the Philippines is so unprotected and so little able to defend itself as the farming class; and hence, the unwisdom of imposing a tax against which are evidently arrayed justice, expediency, and humanity.

Among the serious handicaps to agriculture today must be classed the exorbitantly high price of labor (Philippine conditions considered). Employers of agricultural laborers now find that, whereas they formerly paid from 25 to 40 cents Mexican for ordinary day labor under the Spanish régime, they now have to

pay from 60 cents to one peso Philippine currency—a rise of from 100 to 150 per cent. The fact that certain private employers occasionally pay as much as 1.50 pesos for labor of an unskilled—although heavy—sort, and that this rate is paid on the Benguet road, where a larger number of men are employed than in any other single enterprise in the islands, tends to raise general agricultural wages. But the controlling fact is that this rise has been largely necessitated by the increase in the cost of living. This increase in cost is fully 100 per cent., if not more. If the laborer finds himself obliged to pay double for his supplies, it is natural that he should demand a corresponding increase in wages.

The existence of ladronism is, in many instances, due solely to the inability of men to get work at the high rate of wages which present agricultural conditions compel them to charge, but which landowners quite as often find it beyond their means to pay. Without the chance of earning a living, without political power, lacking the qualifications that might enable them to get office under the government, it is not strange that the ignorant *taos* should readily fall under the control of leaders who—not without justice—attribute the existing evils to American rule. These men urge that resistance to the constituted authorities will enfranchise the peasants from poverty as well as from foreign control.

The prices of commodities would doubtless rise sufficiently to offset to the producer the larger sum he must expend in wages, were it true that the commodities of regular production in the islands were consumed there, or were there a corresponding rise in prices in the world's markets. This is not the case. The bulk of the sugar, tobacco, copra, hemp, and rope, and other indigenous products or manufactures annually placed in the insular market, is of course, for export. Rice is probably the only home-grown product which is consumed at home, and growers have been prevented from gaining the full advantage of the higher price of this staple, by reason of the fact that not nearly enough of it has been raised in recent years to supply the home demand—and could not be raised because of the scarcity of carabaos. The higher price, therefore, has chiefly inured to the advantage of the grower in neighboring countries which export the grain to the Philippines.

In the other commodities mentioned, market conditions are almost uniformly bad — hemp alone excepted.

### III

It is no wonder that, with agriculture decadent and the economic system demoralized, the outlook for export business — and consequently for import trade — should be discouraging. Who is responsible for existing conditions is now a historical question purely. Similarly, the problem of altering the legislation of the United States in such a way as to advance the prosperity of the Philippines is purely political in character. But, whatever may be practicable at Washington, it is now evident that two things are fundamentally necessary in order to lift the Philippines from the gulf of depression into which they have settled. These are the opening of the markets of the United States to Philippine products on a free-trade basis, and the maintenance of low charges for transportation between America and Manila. Join to these the less commonly understood necessity of lightening the load resting on Philippine taxpayers, and of simplifying the administration — and the road to improvement has been clearly indicated. These measures cannot be discussed here. But the economic prospects of the Philippines are far from bright, even granting that these three necessary requisites are secured.

Many persons affect to think that, with free trade, low freights, and cheap government, the islands would start upon a career of fabulous prosperity. There have been sanguine persons in the past who have anticipated tremendous growth in the business of the Philippines, both exports and imports, and some of them still profess their earlier faith, albeit in a chastened form. As an example of the statements made by the ardent disciples of this school of commercial thinkers may be cited a letter written by Consul O. F. Williams to Mr. Day shortly after Dewey's victory at Manila :

U. S. S. BALTIMORE, MANILA BAY, July 2, 1898.

SIR:

. . . . If long occupation or possession on the part of our government be considered, I believe early and strenuous efforts should be made to bring here from the United States men and women of many occupations — mechanics,

teachers, ministers, shipbuilders, plumbers, druggists, doctors, dentists, carriage- and harness-makers, stenographers, typewriters, photographers, tailors, blacksmiths, and agents for exporting; and to introduce American products, natural and artificial, of many classes. To all such I pledge every aid, and now is the time to start. Good government will be easier the greater the influx of Americans.

My dispatches have referred to our present percentage of export trade. If now our exports come here as interstate, duty-free, we have practical control of Philippine trade, which now amounts to many millions, and, because of ingrafting of American energy and methods upon the fabulous natural and productive wealth of these islands, can, and probably will, be multiplied by twenty during the coming twenty years. All this increment should come to our nation and not go to any other. . . .

I hope for an influx this year of 10,000 ambitious Americans, and all can live well, and become enriched. . . .

(Signed) O. F. WILLIAMS, *Consul.*<sup>11</sup>

Mr. Frederic Sawyer, for fourteen years a merchant and engineer in the Philippines, prior to the coming of the Americans, commenting upon this letter, speaks of its ideas as "suitable for a comic opera" and adds: "For my part, I should think it great progress if the exports and imports of the Philippines could be doubled in twenty years."

Mr. Sawyer's opinion is shared by most of the competent merchants and business men now in Manila. As one of them lately remarked to the writer:

There is absolutely no prospect of increasing the trade of the islands in any considerable or marked degree until we can get access to the markets of the United States or some others of similar extent. Even then, it is very doubtful whether large gains can be made in trade within any reasonable period. The only large gain in exports must be in hemp, tobacco, or sugar—all commodities subject to very broad conditions of international competition or taxation. My own firm is prosperous, but it is so, simply because we have never had the slightest confidence in the future of the islands, but have devoted ourselves to dealing in exchange, bidding on government contracts and doing steamship-agency business.

Opinions of the same sort could be multiplied, and ought to outweigh the professionally roseate anticipations of Mr. Taft, who speaks of "an immense field for the sale of American goods"<sup>12</sup>

<sup>11</sup> Quoted by Sawyer in "The Inhabitants of the Philippines," *Scribner's*, 1900, p. 165.

<sup>12</sup> *Annual Report*, 1903.

among the natives, though he adds that this field cannot be exploited until larger amounts of American capital are brought to the islands.

It is undoubtedly true that, subject to the three changes in legislation just indicated, the Philippines would assume an aspect entirely different from that which they now exhibit; but it should be clearly understood by American business men that there is to be no phenomenal and unlimited increase in business activity in the Philippines — barring, of course, the possibility of a sudden — and now improbable — mining expansion. As already seen, the few simple exports of the islands are the central factor in their economic situation, and the economic future depends entirely on the ability to build up and develop the trade in this limited number of commodities. Of these commodities four only deserve attention, and of these four hemp now ranks far ahead of the others, its exports — \$21,794,960 — being about two-thirds of the total exports of the islands; while sugar with \$2,668,507, tobacco with \$2,015,287, and copra with \$2,527,019 make a combined total of less than one-third the hemp exports. The immediate future, therefore, seems to depend upon finding larger markets for sugar, tobacco, and copra, and of maintaining and extending the market for hemp. It deserves to be noted that the extent to which Philippine copra, sugar, and tobacco can be marketed depends not only on tariff conditions, but upon the demand for the products that can be built up. Let us pass in review some facts relating to the demand for each of these articles.

The area under sugar in various parts of the world has latterly been so large as to furnish a superabundant supply of the commodity, and to preclude the possibility of any favorable prospect in the immediate future for those commodities that must compete in neutral or free-trade markets. Of this, the present condition of the West Indies and the bad outlook for Philippine sugar furnish abundant evidence. The admission of Philippine sugar to the United States is now being advocated on the ground that the product will enjoy especial advantages in our market, yet will not injure the domestic sugar-grower, because the amount likely to come in will be so small. It is obvious that the admission of

Philippine sugar to the American market, duty-free, would be an immense advantage to the producer, and would probably enable him to sustain himself, in the face even of the present adverse sugar conditions, so long as our present tariff rates on sugar were maintained against others. The argument, however, defeats itself, since the plea for free admission is based on the claim that but little would be produced and would come in. If sugar should be imported from the Philippines in large quantities, it is improbable that the situation would be tolerated by our domestic sugar-growers, who would demand the enforcement of the "protective principle" in their industry. Prosperity and large sales in the Philippine sugar industry now seem to be dependent upon preferential admission to the American market, but the latter is seemingly incompatible with large sales and consequent prosperity, for political reasons.

The considerations that are true of sugar hold good also of tobacco. Tobacco, moreover, is in an exceptionally difficult situation. The Manila product, owing to its peculiar flavor, appeals only to a particular class of consumers, and a trade in it must be carefully developed. How far this will be possible can hardly be predicted.

Copra goes only in small quantities to the United States. During the fiscal year 1904, only \$9,231 worth of the product was imported here out of a total export from the Philippines of \$2,527,019. It goes chiefly to France, and alterations in our tariff laws are not likely to affect its production and sale very seriously either one way or the other, especially as we have competing products that render importation unprofitable. There is no reason to expect any considerable improvement in the sale of the article, except as such improvement may be brought about by lower prices and better qualities of the annual crops due to improved conditions of production.

The only important item in the present export trade that remains for consideration is hemp. This article has been the main reliance of the islands, and it has been thought by some that an indefinite extension of hemp cultivation might be made. It has been assumed by the authorities that a practically unlimited

demand for Manila hemp existed and could not be met by substitutes of any sort. This being supposed true, much stress has been laid on increased hemp exports, especially in view of the very high prices for the staple that have lately prevailed. If it were true that the hemp area could be indefinitely extended, the situation would be different, but experience shows that it is lands only of a very well-defined type that will yield satisfactory results, and that the supply must therefore be subject to distinct limitations. But a worse shock has come in the discovery that the demand for hemp is likewise limited, being confined to good qualities chiefly, and falling off in a marked way when a certain price is exceeded.

During the past year or two, a very sharp deterioration in the quality of Manila hemp has been noted. This deterioration went so far as to lead to demand for official supervision and classification of hemp offerings in the market, with a view to improving the quality of the native farmers' output. Investigation led the Philippine Commission to the conclusion that direct action on the question was impossible, except under conditions that would unduly favor certain interests at the expense of others. "The high price of hemp," wrote the commission, "always increases production of inferior quality. This is a natural economic result; if the dealers do not desire to pay high prices for the inferior quality their refusing to do so will soon bring up the quality of hemp."<sup>13</sup> Correct as the commission doubtless was in this decision, the fact remains that the demand for the fiber is very distinctly limited, and is decreased by deterioration in quality as well as by increase in price. To what extent this is the case may be inferred from the decline in hemp exports to the United States during 1904. We took about \$12,300,000 worth of hemp in 1903 out of a gross exportation of \$21,700,000 in that year. During the year 1904, out of substantially the same gross exports, only \$10,600,000 went to the United States—a decline of about \$1,700,000. The reasons for this falling off were clearly stated in a letter written to Mr. H. T. Edwards, of the insular Bureau of Agriculture, by a representative of the International Harvester Co., of Chicago. After describing the quality of hemp preferred in

<sup>13</sup> *Report of the U. S. Philippine Commission, 1903*, Vol. I, p. 51.

the manufacture of binder twine, and complaining that "never within the experience of this company or its predecessors, extending over twenty years, have we been afflicted with so uniformly poor qualities of hemp as for the past two years," the letter went on to say :

If the supply of sisal [fiber] were sufficient, we should discontinue the use of Manila under present conditions of quality, and while we are not able now to adopt this course on account of the extent of our requirements, we are gradually raising them, using substitutes wherever it is possible, and other consumers are doing the same. We believe that the result will be a gradual reduction of the consumption of Manila hemp for binder-twine purposes, and a corresponding increase in the consumption of other fibers, unless some remedy is found for improving Manila hemp. Once consumers learn that other fibers can be used as economically as Manila, a return to the latter fiber will be a difficult matter.

Mr. Edwards, in a later communication to the chief of his bureau, fully admitted the soundness of the complaints of the makers of binder twine, showed that the sisal fiber is now used in the manufacture of probably 75 per cent. of all binder twine, and indicated the introduction of a machine for cleaning hemp as the only promising means of warding off danger to the hemp trade.<sup>14</sup> Such a machine has since been completed and, at a recent test (January, 1905) in Washington, was said to work well, but is equally available for the treatment of sisal fiber. It is, therefore, hard to see how it will much assist in the advancement of the Manila product.

The sisal fiber several times referred to is now largely drawn from Mexico and elsewhere, and is only slightly cultivated in the Philippines. Its wider cultivation there is, of course, possible, should commercial conditions make it profitable. The same is true of various other tropical products, some of which the government is now striving—with prospects of ultimate success—to introduce. But, from what has been said, it will be evident that Philippine agriculture is not likely to prove the bonanza it has been considered. Most of its products can be obtained as well and as cheaply from some other source, and others of them must meet the sharp competition of valuable substitutes grown elsewhere. The

<sup>14</sup> Correspondence published, *Manila American*, July 30, 1904.

agricultural future of the Philippines must depend upon careful, persistent, steady work, designed to improve the quality and lower the cost of native products, and thus to win in a sharp competitive battle. Even with a rich soil and great natural productiveness, success can probably be gained only if special commercial advantages are granted by the United States. In view of these facts, there is no use for many Americans in the Philippines, unless they are possessed of considerable capital which they are willing to invest; for it is obvious that tropical agriculture is an occupation in which the American settler unprovided with capital can hardly hope to thrive by his own physical labor. At present the prospective profits to be gained from such investments are far from furnishing much attraction to our capitalists.

#### IV

It would be unfair to our administrators to suppose that they did not long ago perceive the facts in the Philippine situation. Recognizing these facts, they saw that they must reconcile themselves to a long and tedious process of industrial development. In consequence there has been a search for some alternative plan. The crux of the situation was early seen—apart from tariff and kindred questions—to be the problem of local cost of production; and in this again the central factor was the labor issue. Naturally enough, Americans anxious to grow rich in the Philippines have urged that an adequate supply of cheap labor would enable them to market the products of the islands at a low rate, in spite of keen competition from without; and hence the loud and persistent demand for permission to introduce Chinese under contract—a demand which has received the sanction of Professor J. W. Jenks in a recent report, and of sundry of our administrators. With this suggestion must be classed the recommendations of Mr. Taft and others that interest on capital invested in various enterprises be guaranteed by the government and that lands be opened in large tracts to corporate exploitation. Mr. Taft's railway policy has now been, in part at least, adopted by Congress in the bill guaranteeing railway bonds, passed at the session recently ended. But this still leaves the labor and

land questions untouched; and without imported labor, as testified by Mr. J. T. Norton, the Commission's railway expert, construction of railways will be impossible or profitless. The spending of the capital to be invested in the proposed schemes will, perhaps, cause a temporary prosperity, however short-lived, and may bring back the "boom days" of the early military occupation. But the land and labor questions will recur with double force when the construction period is ended and the task of securing traffic for the roads begins. Then, if not before, the call for contract Chinese labor and for large plantations will become imperative. Shall these suggestions be accepted? The introduction of a system of quasi-slavery would undoubtedly result to the profit of the American exploiters who are ready to take up the vacant lands of the islands. With land at a nominal figure, with labor depressed to the lowest notch of the existence-minimum, and with free entry for their goods into the United States—if these demands be conceded—they may probably find profitable fields of investment. The Filipino himself is a good worker, though unable to compete with the Chinaman for the same reasons that make the American laborer dread oriental competition. Deprived of his public lands, he would also be driven from employment by the impossibility of maintaining the competitive struggle. Although a few of our citizens might be able to reap large profits, they would therefore do so partly at the expense of the natives and partly at that of the home taxpayers, who support the army that makes our administration possible. This policy would not have the effect of increasing the buying power of the natives or of extending the market for our goods. Similarly, the investment of American capital in railroads and other public utilities will either yield a regular return or it will not. If not, then the guaranteed interest must be paid by Philippine taxpayers, who will sink deeper and deeper into the mire of financial disaster in which they are now staggering. If investments prove profitable, they can do so only by a very large development of the industries of the country, made possible through the use of coolie labor, as already described, and by the cession to private interests of large tracts of the public domain to be cultivated on the estate

system. Already the American press and population in Manila are crying out for the introduction of a system of exploitation—anticipating the recent passage through Congress of the bill authorizing the government guarantee of interest on railway bonds. Already the native, groaning under a weight of taxation far heavier than in the days of the Spanish clerical bureaucracy, is looking apprehensively to the introduction of the new economic policy. The choice of methods must be made. We must decide between the enlightened policy of education and of slow commercial expansion in the interest of the native population, and the plan of quick development, large land grants, and other concessions to foreign capital now advocated by our Philippine administration and by Mr. Taft. Is the cry, "The Philippines for the Filipinos!" a true expression of altruistic sentiment? If so, our choice of a policy will be quickly made.

H. PARKER WILLIS.

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